

Message Text

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PAGE 01 BERN 00521 01 OF 02 011354Z
ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 L-03 H-02 PA-02 PRS-01 DOE-11
SOE-02 OES-07 AGRE-00 /137 W
-----115215 011427Z /42

R 011315Z FEB 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 5693
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

UNCLAS SECTION 1 OF 2 BERN 521

USMTN ALSO FOR MISSION

USOECD ALSO FOR EMBASSY

PASS TREAS AND FRB

EO 11652: NA
TAGS: EFIN SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK OF JAN 23-29, 1978

1. SUMMARY: DOLLAR RATE AGAINST SWISS FRANC SLIPPED
TO SF 1.97. GOLD PRICE REMAINED AT 176 DESPITE
FLUCTUATIONS. STOCK PRICES ROSE. INTEREST RATES
MAY DECLINE FURTHER. ESTIMATED 1977 SWISS BALANCE
OF PAYMENTS SURPLUS IS DOWN FROM 1976. COMBINED
SWISS PUBLIC AUTHORITIES' 1978 BUDGETED DEFICIT
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PAGE 02 BERN 00521 01 OF 02 011354Z

IS BELOW 1977 DEFICIT. BANKERS ARE CONCERNED ABOUT
POSSIBLE WEAKENING OF BANK SECRECY. BANKERS ARE
STRESSING IMPORTANCE OF INTERNAL AUDITS. END SUMMARY

2. FOREIGN EXCHANGE AND GOLD: (A) DOLLAR RATE
AGAINST SWISS FRANC DECLINED THROUGH MIDWEEK THEN
ROSE SLIGHTLY THURS AND FRI. DELAERS ATTRIBUTED

RATE DECLINE TO PSYCHOLOGICAL IMPACT OF US HOUSE
BANKING COMMITTEE CHAIRMAN'S CRITICISM OF US INTERVENTION
POLICY, JAPAN'S AND WEST GERMANY'S LARGE 1977
TRADE SURPLUS, EXPECTATIONS FOR LARGE US 1977 TRADE
DEFICIT AND DELAY IN US SENATE CONFIRMATION HEARING
FOR NEW US FRB CHAIRMAN. SAID FIRMER DOLLAR RATE
THURS AND FRI WERE RESULTS OF EARLIER COORDINATED
CENTRAL BANK INTERVENTION, DELAY IN RELEASE OF US
1977 TRADE FIGURES EXPECTATION OF ADDITIONAL US
SUPPORT MEASURES FOR DOLLAR.

(B) DEALERS SAID GOLD PRICE ROSE TO \$177.25 PER
OUNCE WED UNDER SPECULATIVE BUYING PRESSURE; SUBSEQUENT
DECLINE DUE TO PROFIT TAKING SALES ON VARIOUS
MARKETS. INCREASED OFFER FROM SOVIET UNION AND SMALL
SALES BY UNNAMED CENTRAL BANK BROUGHT PRICE TO 176
THURS. STRONGER DEMAND FRI BROUGHT IT BACK UP.
PREDICTED: BANK OF JAPAN WOULD BUY GOLD FOLLOWING
EXPIRATION WASHINGTON AGREEMENT END JAN; PRICE COULD
SWING IN RANGE 174 TO 178 AFTER NEXT IMF GOLD AUCTION;
AND GENERAL FURTHER PRICE INCREASE FOR GOLD AND OTHER
METALS THIS YEAR. RATES FOLLOW:

ITEM - 1/24 (OPEN) - 1/27 (CLOSE)
SPOT DOLLAR - 1.9810 - 1.9745
FORWARD DISCOUNTS (PERCENT PER ANNUM)
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PAGE 03 BERN 00521 01 OF 02 011354Z

ONE MONTH - 7.11 - 6.38
TWO MONTHS - 6.57 - 6.50
THREE MONTHS - 6.32 - 6.36
SIX MONTHS - 6.13 - 6.10
TWELVE MONTHS - 5.50 - 5.47
SF/DM - 93.93 - 93.55
GOLD - 176.50 - 176.00

3. CAPITAL AND MONEY MARKETS: (A) STOCK PRICES ROSE
IN ACTIVE MARKET, ESPECIALLY SHARES PAYING HIGHER
DIVIDENDS. CREDIT SUISSE BEARER CERTIFICATES
ROSE 6.5 PERCENT TO SF 2,370. SKA SHARE INDEX INCREASED
2.8 PERCENT TO FOUR-YEAR HIGH OF 257.3.
DESPITE PRICE CONSOLIDATION TREND FRIDAY, BROKERS
BELIEVED STRONG UPWARD TREND WAS INDICATION OF

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PAGE 01 BERN 00521 02 OF 02 011416Z

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FM AMEMBASSY BERN

TO SECSTATE WASHDC 5694

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UNCLAS SECTION 2 OF 2 BERN 521

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IMPROVED MARKET OUTLOOK FOLLOWING RECENT INVESTORS' HESITANCY. SAID MARKET WAS INFLUENCED BY LOW RETURNS ON BONDS, UNCERTAINTY ON FOREX MARKET AND SNOWBOUND NEW YORK STOCK MARKET. SWISS BANKERS BELIEVE SWISS INVESTORS RELUCTANT TO INVEST OUTSIDE SWITZERLAND UNDER CURRENT MARKET CONDITIONS; SEE HIGHER STOCK PRICES AS RETURN TO NORMAL LEVELS PREVAILING BEFORE RECESSION.

(B) AVERAGE YIELD CONFEDERATION BONDS SLIPPED TO UNCLASSIFIED

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PAGE 02 BERN 00521 02 OF 02 011416Z

3.65. SWISS FEDERAL COUNCIL LOWERED INTEREST RATE ON 4-YEAR CONFEDERATION CERTIFICATES OF DEPOSIT TO 3 PERCENT (FROM 3.5 PERCENT PREVIOUSLY) AND ON 8-YEAR CD'S TO 3.5 PERCENT (FROM 4 PERCENT); REDUCTION WAS MADE BY PREPAYMENT OF YIELD ON CD'S WHICH FELL DUE DEC 31, 1977 AND JAN 1, 1978 BUT WERE

AUTOMATICALLY EXTENDED. INDUSTRIAL BANK OF NORWAY WILL BORROW SF 100 MILLION AT 4 PERCENT INTEREST OVER 15 YEARS, FIRST FOREIGN BORROWING AT SUCH LOW RATE IN CURRENT LOW YIELD PERIOD. SOME BANKERS BELIEVE INTEREST RATES WILL DECLINE FURTHER, INITIALLY FOR SAVINGS DEPOSITS FOLLOWED BY MORTGAGE RATES. BANKS WONDER WHY FOREIGN INVESTORS ARE NOT PURCHASING SWISS BANKS' BONDS WHICH THEY BELIEVE PROVIDE EXCELLENT INVESTMENT, DESPITE LOW YIELDS, BECAUSE OF SWISS FRANC APPRECIATION.

4. BALANCE OF PAYMENTS: LATEST ESTIMATE FOR SWISS 1977 BPO SURPLUS IS SF 8,325 MILLION, DOWN SF 600 MILLION FROM 1976. WITH ADDITION OF SF 868 MILLION TRADE DEFICIT, SWISS SURPLUS ON INVISIBLE TRANSFERS AND CAPITAL ACCOUNT WOULD BE ABOUT SF 9,292 MILLION OR \$4.6 BILLION.

5. PUBLIC FINANCES: COMBINED 1978 DEFICITS FOR CONFEDERATION, CANTONS AND MUNICIPALITIES IS BUDGETED AT SF 2.9 BILLION, COMPARED TO SF 3.7 BILLION IN 1977. CONFEDERATION DEFICIT BUDGETED AT SF 2.2 BILLION, DOWN SF 500 MILLION FROM 1977; COMBINED CANTONAL DEFICIT BUDGETED AT SF 1.2 BILLION, DOWN SF 200 MILLION FROM 1977; AND MUNICIPALITIES DEFICIT BUDGETED AT SF 500 MILLION, DOWN FROM SF 100 MILLION.

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PAGE 03 BERN 00521 02 OF 02 011416Z

6. SOCIALIST BANKING INITIATIVE: BANKERS ARE GENERALLY RELIEVED BY MODERATE TONE OF DRAFT SOCIALIST INITIATIVE (BERN 365). SOCIALISTS HAVE ABANDONED DRACONIAN IDEAS OF NATIONALIZATION OR GOVT OFFICIALS SITTING ON BANKS' BOARDS OF DIRS. HOWEVER, INITIATIVE WOULD WEAKEN BANK SECRECY. BANKERS SAY ISSUE IS WHERE TRADITIONAL SWISS PROTECTION OF INDIVIDUAL RIGHTS WILL CEDE TO RIGHTS OF COLLECTIVE SOCIETY. MOST BANKERS DOUBT SWISS VOTERS WOULD ACCEPT THIS ASPECT OF INITIATIVE, BUT SOME ARE CONCERNED IO COULD GAIN SIGNIFICANT SUPPORT AND ARE EXPECTED TO MOUNT VIGOROUS OPPOSITION. BANKERS SEE LITTLE CHANCE OF ACCEPTING INITIATIVE PROVISION TO LIFT SECRECY IN CASES OF FLIGHT CAPITAL AND FOREIGN MONETARY RULE VIOLATIONS, BUT THEY SAY LIFTING SECRECY IN TAX FRAUD CASES IS SERIOUS POSSIBILITY.

6. BANK INSPECTION: SWISS BANKERS' ASSN IN EARLY JAN SENT MEMBERS GUIDELINES FOR INTERNAL AUDITING (BERN 146). SBA RECOMMENDED PLACING AUDITING UNITS UNDER BANKS' BOARDS OF DIRS, WHICH THEMSELVES CONSTITUTE OPERATIONAL OVERSIGHT, AND CONDUCTING AUDITS OF SENIOR MANAGEMENT AS WELL AS LOWER LEVELS. INTERNAL AUDITS SHOULD BE MANAGEMENT TOOL, NOT LIMITED TO REVIEWING

ACCOUNTS, TO ENSURE OPERATIONS CONFORM TO OBJECTIVES AND DETERMINE
CAUSES OF ERRORS. AUDITORS SHOULD BE TRAINED IN BOTH ACCOUNTING
AND BANKING, THOUGH NO BANK AUDITING SCHOOLS EXIST IN SWITZERLAND.
SBA BELIEVES BANKS CAN SHOW THAT INTERNAL AUDITS ARE MORE
IMPORTANT AND EFFECTIVE THAN WOULD BE INCREASE IN OUTSIDE
AUDITS. ODELL

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